

Auditing Procedures Report

Issued under P.A. 2 of 1958, as amended and P.A. 71 of 1919, as amended.

Local Unit of Government Type <input type="checkbox"/> County <input type="checkbox"/> City <input type="checkbox"/> Twp <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other		Local Unit Name Pennfield Schools	County Calhoun
Fiscal Year End June 30, 2007	Opinion Date October 23, 2007	Date Audit Report Submitted to State November 26, 2007	

We affirm that:

We are certified public accountants licensed to practice in Michigan.

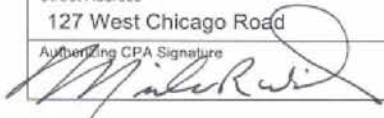
We further affirm the following material, "no" responses have been disclosed in the financial statements, including the notes, or in the Management Letter (report of comments and recommendations).

YES NO **Check each applicable box below.** (See instructions for further detail.)

1. ☒ ☐ All required component units/funds/agencies of the local unit are included in the financial statements and/or disclosed in the reporting entity notes to the financial statements as necessary.
2. ☒ ☐ There are no accumulated deficits in one or more of this unit's unreserved fund balances/unrestricted net assets (P.A. 275 of 1980) or the local unit has not exceeded its budget for expenditures.
3. ☒ ☐ The local unit is in compliance with the Uniform Chart of Accounts issued by the Department of Treasury.
4. ☒ ☐ The local unit has adopted a budget for all required funds.
5. ☒ ☐ A public hearing on the budget was held in accordance with State statute.
6. ☒ ☐ The local unit has not violated the Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, or other guidance as issued by the Local Audit and Finance Division.
7. ☒ ☐ The local unit has not been delinquent in distributing tax revenues that were collected for another taxing unit.
8. ☒ ☐ The local unit only holds deposits/investments that comply with statutory requirements.
9. ☒ ☐ The local unit has no illegal or unauthorized expenditures that came to our attention as defined in the *Bulletin for Audits of Local Units of Government in Michigan*, as revised (see Appendix H of Bulletin).
10. ☒ ☐ There are no indications of defalcation, fraud or embezzlement, which came to our attention during the course of our audit that have not been previously communicated to the Local Audit and Finance Division (LAFD). If there is such activity that has not been communicated, please submit a separate report under separate cover.
11. ☒ ☐ The local unit is free of repeated comments from previous years.
12. ☒ ☐ The audit opinion is UNQUALIFIED.
13. ☒ ☐ The local unit has complied with GASB 34 or GASB 34 as modified by MCGAA Statement #7 and other generally accepted accounting principles (GAAP).
14. ☒ ☐ The board or council approves all invoices prior to payment as required by charter or statute.
15. ☒ ☐ To our knowledge, bank reconciliations that were reviewed were performed timely.

If a local unit of government (authorities and commissions included) is operating within the boundaries of the audited entity and is not included in this or any other audit report, nor do they obtain a stand-alone audit, please enclose the name(s), address(es), and a description(s) of the authority and/or commission.

I, the undersigned, certify that this statement is complete and accurate in all respects.

We have enclosed the following:	Enclosed	Not Required (enter a brief justification)	
Financial Statements	<input checked="" type="checkbox"/>		
The letter of Comments and Recommendations	<input checked="" type="checkbox"/>	Internal Control letter under GAS	
Other (Describe)	<input type="checkbox"/>		
Certified Public Accountant (Firm Name) Norman & Paulsen, P.C.		Telephone Number 269-651-3228	
Street Address 127 West Chicago Road		City Sturgis	State MI
		Zip 49091	
Authorizing CPA Signature 		Printed Name Michael R. Wilson	License Number 1101017570

PENNFIELD SCHOOLS
FINANCIAL REPORT
WITH SUPPLEMENTAL INFORMATION
JUNE 30, 2007

Pennfield Schools

Contents

Independent Auditor's Report	1-2
Administration's Discussion and Analysis	3-10
Basic Financial Statements	
District-wide Financial Statements:	
Statement of Net Assets	11
Statement of Activities	12
Fund Financial Statements:	
Balance Sheet - Governmental Funds	13
Reconciliation of the Balance Sheet of Governmental Funds to the Statement of Net Assets	14
Statement of Revenue, Expenditures and Changes in Fund Balance - Governmental Funds	15
Reconciliation of the Statement of Revenue, Expenditures and Changes in Fund Balances of Governmental Funds to the Statement of Activities	16-17
Fiduciary Fund:	
Statement of Fiduciary Net Assets	18
Notes to Financial Statements	19-31
Required Supplemental Information	
Budgetary Comparison Schedule - General Fund	32

Pennfield Schools

Contents

(Continued)

Other Supplemental Information

General Fund:	
Statement of Revenue	33
Statement of Expenditures	34-40
Combining Balance Sheet - Nonmajor Governmental Funds	41
Combining Statement of Revenue, Expenditures and Changes in Fund Balances - Nonmajor Governmental Funds	42
Special Revenue Funds:	
Food Service Fund - Statement of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual	43
Athletic Fund - Statement of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual	44
Trust and Agency Funds:	
Combining Statement of Changes in Assets and Liabilities	45
Statement of Bonded Indebtedness	46-51
Schedule of Expenditures of Federal Awards	52-53
Independent Auditor's Report on Compliance and on Internal Control over Financial Reporting Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	54-55
Report on Compliance with Requirements Applicable to Each Major Program and Internal Control over Compliance in Accordance with OMB Circular A-133	56-57
Schedule of Findings and Questioned Costs	58



Norman & Paulsen, P.C.

Certified Public Accountants

127 W. Chicago Road
Sturgis, MI 49091
269.651.3228
Fax 269.651.5146
E-mail
normanpaulsen@charter.net

Other Location:
123 N. Main Street
Three Rivers, MI 49093
269.273.8641
Fax 269.278.8252
E-mail
npnr@npaccounting.com

Donald L. Paulsen, CPA
Patrick J. Monahan, CPA
Bruce S. A. Gosling, CPA
Michael R. Wilson, CPA
Rick L. Strawser, CPA
Jerrel T. Norman (1941-1982)

INDEPENDENT AUDITOR'S REPORT

Board of Education
Pennfield Schools, Michigan

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Pennfield Schools, as of and for the year ended June 30, 2007, which collectively comprise the School District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of Pennfield Schools' management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Pennfield Schools as of June 30, 2007, and the respective changes in financial position, for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

The administration's discussion and analysis and budgetary comparison schedules, as identified in the table of contents, are not a required part of the basic financial statements but is supplemental information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplemental information. However, we did not audit the information and express no opinion on it.

Board of Education
Pennfield Schools

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Pennfield Schools basic financial statements. The accompanying other supplemental information, as identified in the table of contents, is presented for purposes of additional analysis and is not a required part of the basic financial statements. The accompanying schedule of expenditures of Federal Awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects in relation to the basic financial statements taken as a whole.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 23, 2007, on our consideration of Pennfield School's internal control over financial reporting and on our tests of it's compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Norman J. Paulson, P.C.

October 23, 2007

PENNFIELD SCHOOLS

ADMINISTRATION'S DISCUSSION AND ANALYSIS
YEAR ENDED June 30, 2007

This section of Pennfield Schools' annual financial report presents our discussion and analysis of the School District's financial performance during the year ended June 30, 2007. Please read it in conjunction with the School District's financial statements, which immediately follow this section.

Using this Annual Report

This annual report consists of a series of financial statements and notes to those statements. These statements are organized so the reader can understand Pennfield Schools financially as a whole. The *District-wide Financial Statements* provide information about the activities of the whole School District, presenting both an aggregate view of the School District's finances and a longer-term view of those finances. The fund financial statements provide the next level of detail. For governmental activities, these statements tell how services were financed in the short-term as well as what remains for future spending. The fund financial statements look at the School District's operations in more detail than the district-wide financial statements by providing information about the School District's most significant funds - the General Fund, the 2004 Capital Projects Fund, and the Debt Service Fund with all other funds presented in one column as nonmajor funds. The remaining statement, the statement of fiduciary net assets, presents financial information about activities for which the School District acts solely as an agent for the benefit of students and parents.

Management's Discussion and Analysis (MD&A)
(Required Supplemental Information)

Basic Financial Statements

District-wide Financial Statements

Fund Financial Statements

Notes to the Basic Financial Statement

(Required Supplemental Information)

Budgetary Information for the General Fund and Major Special Revenue Funds

Other Supplemental Information

Reporting the School District as a whole - District-wide Financial Statements

One of the most important questions asked about the School District is, "As a whole, what is the School District's financial condition as a result of the year's activities?" The statement of net assets and the statement of activities, which appear first in the School District's financial statements, report information on the School District as a whole and its activities in a way that helps you answer this question. We prepare these statements to include all assets and liabilities, using the accrual basis of accounting, which is similar to the accounting used by most private-sector companies. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

PENNFIELD SCHOOLS

ADMINISTRATION'S DISCUSSION AND ANALYSIS - (Continued) YEAR ENDED June 30, 2007

These two statements report the School District's net assets - the difference between assets and liabilities, as reported in the statement of net assets - as one way to measure the School District's financial health or financial position. Over time, increases or decreases in the School District's net assets - as reported in the statement of activities - are indicators of whether its financial health is improving or deteriorating. The relationship between revenues and expenses is the School District's operating results. However, the School District's goal is to provide services to our students, not to generate profits as commercial entities do. One must consider many other nonfinancial factors, such as the quality of the education provided and the safety of the schools, to assess the overall health of the School District.

The statement of net assets and statement of activities report the governmental activities for the School District, which encompass all of the School District's services, including instruction, supporting services, community services, athletics, and food services. Property taxes, unrestricted State Aid (foundation allowance revenue), and State and federal grants finance most of these activities.

Reporting the School District's Most Significant Funds - Fund Financial Statements

The School District's fund financial statements provide detailed information about the most significant funds - not the School District as a whole. Some funds are required to be established by State law and by bond covenants. However, the School District establishes many other funds to help it control and manage money for particular purposes or to show that it's meeting legal responsibilities for using certain taxes, grants, and other money. The governmental funds of the School District use the following accounting approach:

Governmental funds - All of the School District's services are reported in governmental funds. Governmental fund reporting focuses on showing how money flows into and out of funds and the balances left at year end that are available for spending. They are reported using an accounting method called modified accrual accounting, which measures cash and all other financial assets that can readily be converted to cash. The governmental fund statements provide a detailed short-term view of the operations of the School District and the services it provides. Governmental fund information helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the School District's programs. We describe the relationship (or differences) between governmental activities (reported in the statement of net assets and the statement of activities) and governmental funds in a reconciliation.

PENNFIELD SCHOOLS

ADMINISTRATION'S DISCUSSION AND ANALYSIS - (Continued)
YEAR ENDED June 30, 2007

The School District as Trustee - Reporting the School District's Fiduciary Responsibilities

The School District is the trustee, or fiduciary, for its student activity funds. All of the School District's fiduciary activities are reported in separate statements of fiduciary net assets. We exclude these activities from the School District's other financial statements because the School District cannot use these assets to finance its operations. The School District is responsible for ensuring that the assets reported in these funds are used for their intended purposes.

The School District as a Whole

Recall that the statement of net assets provides the perspective of the School District as a whole. Table I provides a summary of the School District's net assets as of June 30, 2007 and 2006:

TABLE I

	June 30	
	<u>2007</u>	<u>2006</u>
Assets		
Current and other assets	\$ 11,305,984	\$ 22,184,887
Capital assets and bond fees - Net of accumulated depreciation/amortization	<u>35,637,439</u>	<u>23,054,826</u>
Total assets	46,943,423	45,239,713
Liabilities		
Current liabilities	3,802,373	3,033,763
Long-term liabilities	<u>36,330,438</u>	<u>35,839,514</u>
Total liabilities	40,132,811	38,873,277
Net Assets		
Invested in property and equipment - net of related debt	3,978,825	3,020,920
Restricted for debt service	109,933	99,305
Unrestricted	<u>2,721,854</u>	<u>3,246,211</u>
Total net assets	<u>\$ 6,810,612</u>	<u>\$ 6,366,436</u>

PENNFIELD SCHOOLS

ADMINISTRATION'S DISCUSSION AND ANALYSIS - (Continued) YEAR ENDED June 30, 2007

The above analysis focuses on the net assets (see Table I). The change in net assets (see Table 2) of the School District's governmental activities is discussed below. The School District's net assets were \$6,810,612 at June 30, 2007. Capital assets, net of related debt totaling \$3,978,825 compares the original cost, less depreciation of the School District's capital assets to long-term debt. Most of the debt will be repaid from voter-approved property taxes collected as the debt service comes due. Restricted net assets are reported separately to show legal constraints from debt covenants and enabling legislation that limit the School District's ability to use those net assets for day-to-day operations. The remaining amount of net assets \$2,721,854 was unrestricted.

The \$2,721,854 in unrestricted net assets of governmental activities represents the *accumulated* results of all past years' operations. The operating results of the General Fund will have a significant impact on the change in unrestricted net assets from year to year.

The results of this year's operations for the School District as a whole are reported in the statement of activities (see Table 2), which shows the changes in net assets for fiscal years ended June 30, 2007 and 2006.

TABLE 2

	Year Ended June 30,	
	<u>2007</u>	<u>2006</u>
Revenue		
Program revenue:		
Charges for services	\$ 309,389	\$ 348,501
Grants and catagoricals	1,808,235	1,760,231
General revenue:		
Property taxes - general	924,713	878,645
Property taxes - debt service	1,711,604	1,619,229
State foundation allowance	12,911,860	12,251,203
Interest income and other	<u>742,095</u>	<u>1,210,368</u>
Total revenue	18,407,896	18,068,177

PENNFIELD SCHOOLS

ADMINISTRATION'S DISCUSSION AND ANALYSIS - (Continued) YEAR ENDED June 30, 2007

Function/Program Expenses

	Year Ended June 30,	
	2007	2006
Instruction	\$ 9,180,611	\$ 8,691,952
Support services	5,386,012	4,847,609
Food services	537,749	586,172
Athletics	514,416	544,328
Interest on long-term debt	1,624,976	1,705,420
Depreciation (unallocated)	<u>719,956</u>	<u>647,712</u>
Total expenses	<u>17,963,720</u>	<u>17,023,193</u>
Increase (decrease) in net assets	<u>\$ 444,176</u>	<u>\$ 1,044,984</u>

As reported in the statement of activities, the cost of all governmental activities this year was \$17,963,720. Certain activities were partially funded from those who benefited from the programs \$(309,389) or by other governments and organizations that subsidized certain programs with grants and categoricals \$(1,808,235). We paid for the remaining "public benefit" portion of our governmental activities with \$2,636,317 in taxes, \$12,911,860 in State foundation Allowance, and with our other revenues, such as interest and general entitlements.

The School District experienced an increase in net assets of \$444,176. Key reasons for the change in net assets were an increase in the state foundation allowance revenue due to an increase in students and interest earned on capital project investments. The increase in net assets differs from the change in fund balance and a reconciliation appears on page 16.

As discussed above, the net cost shows the financial burden that was placed on the State and the School District's taxpayers by each of these functions. Since property taxes for operations and unrestricted State aid constitute the vast majority of School District operating revenue sources, the Board of Education and Administration must annually evaluate the needs of the School District and balance those needs with State-prescribed available unrestricted sources.

The School District's Funds

As we noted earlier, the School District uses funds to help it control and manage money for particular purposes. Looking at funds helps the reader consider whether the School District is being accountable for the resources taxpayers and others provide to it and may provide more insight into the School District's overall financial health.

PENNFIELD SCHOOLS

ADMINISTRATION'S DISCUSSION AND ANALYSIS - (Continued)
YEAR ENDED June 30, 2007

As the School District completed this year, the governmental funds reported a combined fund balance of \$8,560,509, which is a decrease of \$11,565,490 from last year. In the General Fund, our principal operating fund, the fund balance increased \$150,415 to \$3,306,097. The General Fund fund balance has been reserved for prepaid expenditures - \$26,601; reserved for inventory - \$13,278; designated for future projects - \$1,594,328; and undesignated - \$1,671,890. In the Capital Projects Fund the fund balance decreased from \$16,735,524 to \$5,044,545. This was the result of a voter approved \$27,915,000 bond issue less bond costs and construction in progress costs incurred through June 30, 2007. The purpose of the Capital Projects Fund is to continue to spend the fund balance to complete the voter approved purpose of erecting, furnishing and equipping a new high school, including an auditorium; acquiring and installing education technology; developing and improving athletic/practice fields and the site; and to pay the costs of issuing the Bonds. In the Debt Service Fund the fund balance increased \$10,628 to \$109,933. Millage rates are determined annually to ensure that the School District accumulates sufficient resources to pay annual bond issue-related debt service. Debt Service Fund fund balance is reserved since it can only be used to pay debt service obligations.

General Fund Budgetary Highlights

Over the course of the year, the School District revises its budget as it attempts to deal with changes in revenues and expenditures. State law requires that the budget be amended to ensure that expenditures do not exceed appropriations. A schedule showing the School District's original and final budget amounts compared with amounts actually paid and received is provided in required supplemental information of these financial statements. Changes to the General Fund original budget were as follows:

Budgeted revenues were increased \$154,661, to better reflect state per student foundation funding and adjustments to categorical funding and a reduction in the interdistrict special education reimbursement.

Budgeted expenditures were increased \$285,566 to account primarily for salary increases not negotiated/budgeted for in the original budget, the purchase of a bus, and building renovations not included in the original budget.

Actual revenues were within \$27,221 of final budgeted revenues or .18% which is immaterial.

Actual expenditures ended the year under the final budget by \$410,309 or 2.8%. This was primarily the result of cost savings plans implemented during the year and capital outlay projects postponed until next year.

PENNFIELD SCHOOLS

ADMINISTRATION'S DISCUSSION AND ANALYSIS - (Continued)
YEAR ENDED June 30, 2007

Capital Asset and Debt Administration

Capital Assets

At June 30, 2007, the School District had \$43,161,927 invested in a broad range of capital assets, including land, buildings and improvements, furniture and equipment, and buses and other vehicles. This amount represents a net increase (including additions and disposals) of \$12,683,509, or 42 percent, from last year. The majority of this increase was construction in progress - \$12,458,432, funded mainly out of the Capital Projects Fund.

	<u>2007</u>	<u>2006</u>
Land	\$ 726,135	\$ 726,135
Buildings and improvements	13,551,696	13,521,896
Buses and other vehicles	1,386,848	1,365,016
Furniture and equipment	3,003,760	2,830,315
Construction in progress	<u>24,493,488</u>	<u>12,035,056</u>
Total capital assets	43,161,927	30,478,418
Less accumulated depreciation	<u>8,541,064</u>	<u>7,864,407</u>
Net capital assets	<u><u>\$ 34,620,863</u></u>	<u><u>\$ 22,614,011</u></u>

Debt

At the end of this year, the School District had \$37,792,765 in bonds and Michigan School Bond Loan proceeds outstanding versus \$36,478,091 in the previous year - an increase of \$1,314,674. This change was the result of two General Obligation Bond issues of \$10,000,000 and \$9,995,000, respectively, to refund prior debt and proceeds from the Michigan School Bond Loan program of \$724,674 to make scheduled bond payments. Debt reductions including principal payments and refunding amounted to \$19,405,000.

	<u>2007</u>	<u>2006</u>
General Obligation Bonds	\$ 35,855,580	\$ 35,265,580
Michigan School Bond Loan	<u>1,937,185</u>	<u>1,212,511</u>
	<u><u>\$ 37,792,765</u></u>	<u><u>\$ 36,478,091</u></u>

The School District's General Obligation Bond rating continues to be equivalent to the State's credit rating. The State limits the amount of general obligation debt that schools can issue to 15 percent of the assessed value of all taxable property within the School District's boundaries. If the School District issues "qualified debt," i.e., debt backed by the State of Michigan, such obligations are not subject to this debt limit. The School District's outstanding unqualified general obligation debt is significantly below the statutorily imposed limit.

PENNFIELD SCHOOLS

ADMINISTRATION'S DISCUSSION AND ANALYSIS - (Continued)
YEAR ENDED June 30, 2007

Factors Bearing on the District's Future

At the time these financial statements were prepared and audited, the District was aware of the following areas that could have a major impact on the 2007 fiscal year, and the near future.

The financial status of the State of Michigan may result in future Executive Order Cuts from the Governor.

Increases in the employer contribution to the Michigan Public School Employees Retirement System, as well as increased premiums for health insurance will significantly affect the District's finances.

Increases in heating fuel costs and transportation fuel costs.

Capital expenditures are another area that is expected to impact the 2007/08 fiscal year. As the capital project from the 2004 bond issue is completed, it is expected that approximately \$425,000 will be spent from the general fund for additional equipment and renovations.

Contacting the School District's Financial Management

This financial report is designed to provide the School District's citizens, taxpayers, customers, and investors and creditors with a general overview of the School District's finances and to demonstrate the School District's accountability for the money it receives. If you have questions about this report or need additional information, contact the Business Department, 8587 Q Drive North, Battle Creek, Michigan 49017.

PENNFIELD SCHOOLS

STATEMENT OF NET ASSETS
June 30, 2007

	<u>Governmental Activities</u>
<u>ASSETS</u>	
Current Assets:	
Cash and cash equivalents	\$ 8,733,617
Accounts receivable	96,011
Due from other governmental units	2,429,181
Prepaid expenses	26,601
Inventories	<u>20,574</u>
Total current assets	11,305,984
Noncurrent Assets:	
Capital assets	43,161,927
Less: accumulated depreciation	<u>8,541,064</u>
Net capital assets	34,620,863
Capitalized bond fees	825,146
Less: accumulated amortization	<u>59,389</u>
Net capitalized bond fees	765,757
Bond discounts net of amortization	<u>250,819</u>
Total noncurrent assets	<u>35,637,439</u>
Total assets	46,943,423
<u>LIABILITIES</u>	
Current Liabilities:	
Accounts payable	1,454,551
Accrued payroll	890,735
Accrued benefits	343,541
Accrued interest	279,759
Deferred revenue	56,648
Notes payable, due within one year	10,000
Bonds payable, due within one year	650,025
Other obligations due within one year	<u>117,114</u>
Total current liabilities	3,802,373
Noncurrent Liabilities:	
Other obligations	287,304
School bond loan	1,937,185
Notes payable	-
Bonds payable, net of gain on refunding	34,038,055
Bond premium net of amortization	<u>67,894</u>
Total noncurrent liabilities	<u>36,330,438</u>
Total liabilities	40,132,811
<u>NET ASSETS</u>	
Invested in capital assets, net of related debt	3,978,825
Restricted for debt service	109,933
Unrestricted	<u>2,721,854</u>
Total net assets	<u>\$ 6,810,612</u>

See Notes to Financial Statements

PENNFIELD SCHOOLS

STATEMENT OF ACTIVITIES
YEAR ENDED June 30, 2007

Functions/Programs	Program Revenues			Governmental
	Expenses	Charges for Services	Operating Grants/Contributions	Activities Net (Expense) Revenue and Changes in Net Assets
Governmental activities:				
Instruction	\$ 9,180,611	\$ 740	\$ 1,522,898	\$ (7,656,973)
Support services	5,386,012	-	6,820	(5,379,192)
Food services	537,749	255,797	278,517	(3,435)
Athletics	514,416	52,852	-	(461,564)
Interest on long-term debt 1,624,976	-		(1,624,976)	
Depreciation (unallocated)	<u>719,956</u>	<u>-</u>	<u>-</u>	<u>(719,956)</u>
Total Governmental activities	<u>\$ 17,963,720</u>	<u>\$ 309,389</u>	<u>\$ 1,808,235</u>	(15,846,096)
General revenues:				
Taxes				
Property taxes, levied for general operations				924,713
Property taxes, levied for debt service				1,711,604
State aid not restricted to specific purposes				12,911,860
Interest and investment earnings				707,915
Other				<u>34,180</u>
Total general revenues				<u>16,290,272</u>
Change in Net Assets				444,176
Net Assets - Beginning of year				<u>6,366,436</u>
Net Assets - End of year				<u>\$ 6,810,612</u>

See Notes to Financial Statements

PENNFIELD SCHOOLS

GOVERNMENTAL FUNDS
BALANCE SHEET
JUNE 30, 2007

	<u>General</u>	<u>2004 Capital Projects</u>	<u>Debt Service</u>
<u>ASSETS</u>			
Cash and cash equivalents	\$ 2,084,872	\$ 6,447,620	\$ 97,787
Accounts receivable	75,993	20,018	-
Due from other governmental units	2,429,181	-	-
Due from other funds	54,844	22,142	12,146
Prepaid expenditures	26,601	-	-
Inventories	13,278	-	-
	<u> </u>	<u> </u>	<u> </u>
Total assets	<u>\$ 4,684,769</u>	<u>\$ 6,489,780</u>	<u>\$ 109,933</u>
 <u>LIABILITIES AND FUND BALANCES</u>			
Liabilities			
Accounts payable	\$ 27,024	\$ 1,427,527	\$ -
Accrued payroll	890,735	-	-
Accrued benefits	343,541	-	-
Due to other funds	60,724	17,708	-
Deferred revenue	56,648	-	-
	<u> </u>	<u> </u>	<u> </u>
Total liabilities	1,378,672	1,445,235	-
Fund Balances:			
Reserved:			
Prepaid expenditures	26,601	-	-
Inventories	13,278	-	-
Debt service	-	-	109,933
Capital projects	-	5,044,545	-
Unreserved:			
Designated for future projects	1,594,328	-	-
Undesignated	1,671,890	-	-
	<u> </u>	<u> </u>	<u> </u>
Total fund balances	<u>3,306,097</u>	<u>5,044,545</u>	<u>109,933</u>
	<u> </u>	<u> </u>	<u> </u>
Total liabilities and fund balances	<u>\$ 4,684,769</u>	<u>\$ 6,489,780</u>	<u>\$ 109,933</u>

See Notes to Financial Statements

Other Non-Major Governmental Funds	Total
\$ 103,338	\$ 8,733,617
-	96,011
-	2,429,181
26,436	115,568
-	26,601
<u>7,296</u>	<u>20,574</u>
<u>\$ 137,070</u>	<u>\$ 11,421,552</u>

\$ -	\$ 1,454,551
-	890,735
-	343,541
37,136	115,568
<u>-</u>	<u>56,648</u>
37,136	2,861,043

-	26,601
7,295	20,573
-	109,933
-	5,044,545
-	1,594,328
<u>92,639</u>	<u>1,764,529</u>
<u>99,934</u>	<u>8,560,509</u>
<u>\$ 137,070</u>	<u>\$ 11,421,552</u>

PENNFIELD SCHOOLS

GOVERNMENTAL FUNDS
RECONCILIATION OF THE BALANCE SHEET OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF NET ASSETS
June 30, 2007

Total Fund Balances - Governmental Funds	\$ 8,560,509
--	--------------

Amounts reported for governmental activities in the
statement of net assets are different because:

Capital assets used in governmental activities are not
financial resources and are not reported in the funds.

The cost of the capital assets is	43,161,927
Accumulated depreciation is	<u>(8,541,064)</u>
Total	34,620,863

Bond issuance costs are not included as an asset in governmental activities	825,146
Accumulated amortization	<u>(59,389)</u>
Total	765,757

Bond premiums net of amortization	(67,894)
-----------------------------------	----------

Long-term liabilities are not due and payable in the
current period and are not reported in the funds:

Other obligations	(404,418)
Notes payable	(10,000)
Bonds payable	(35,855,580)
School bond loan payable	(1,937,185)
Unamortized gain on debt refunding	1,167,500

Bond discounts net of amortization	250,819
------------------------------------	---------

Accrued interest payable on long-term liabilities is not included as a liability in governmental activities	<u>(279,759)</u>
--	------------------

Net assets of governmental activities	<u><u>\$ 6,810,612</u></u>
---------------------------------------	----------------------------

See Notes to Financial Statements

PENNFIELD SCHOOLS

GOVERNMENTAL FUNDS

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
YEAR ENDED June 30, 2007

	<u>General</u>	<u>2004 Capital Projects</u>	<u>Debt Service</u>
Revenues:			
Local sources	\$ 1,037,071	\$ 610,888	\$1,725,936
State sources	13,589,822	21,500	-
Federal sources	257,656	-	-
Interdistrict	<u>572,600</u>	<u>-</u>	<u>-</u>
Total revenues	15,457,149	632,388	1,725,936
Expenditures:			
Instruction	9,139,893	-	-
Supporting services	5,670,312	-	-
Food service	-	-	-
Athletics	-	-	-
Capital outlay	-	12,323,367	-
Debt Service			
Principal repayment	10,000	-	835,000
Interest and fiscal charges	-	-	1,386,765
Interdistrict	24,965	-	-
Bonding costs and fees	<u>-</u>	<u>-</u>	<u>311,501</u>
Total expenditures	<u>14,845,170</u>	<u>12,323,367</u>	<u>2,533,266</u>
Excess (deficiency) of revenues over expenditures	611,979	(11,690,979)	(807,330)
Other financing sources (uses):			
Proceeds from school bond loan fund	-	-	724,674
Proceeds from the issuance of bonds and notes	-	-	19,995,000
Payment to bond escrow agent	-	-	(19,679,383)
Operating transfers in	-	-	-
Operating transfers out	(461,564)	-	-
Discount on issuance of bonds	<u>-</u>	<u>-</u>	<u>(222,333)</u>
Total other financing sources (uses)	<u>(464,564)</u>	<u>-</u>	<u>817,958</u>
Net change in fund balances	150,415	(11,690,979)	10,628
Fund balances, July 1	<u>3,155,682</u>	<u>16,735,524</u>	<u>99,305</u>
Fund balances, June 30	<u>\$ 3,306,097</u>	<u>\$ 5,044,545</u>	<u>\$ 109,933</u>

See Notes to Financial Statements

Other Nonmajor Governmental Funds	Total
\$ 313,906	\$ 3,687,801
24,777	13,636,099
253,740	511,396
<u>-</u>	<u>572,600</u>
592,423	18,407,896
-	9,139,893
-	5,670,312
575,125	575,125
514,416	514,416
-	12,323,367
-	845,000
-	1,386,765
-	24,965
<u>-</u>	<u>311,501</u>
<u>1,089,541</u>	<u>30,791,344</u>
(497,118)	(12,383,448)
-	724,674
-	19,995,000
-	(19,679,383)
461,564	461,564
-	(461,564)
<u>-</u>	<u>(222,333)</u>
<u>461,564</u>	<u>817,958</u>
(35,554)	(11,565,490)
<u>135,488</u>	<u>20,125,999</u>
<u>\$ 99,934</u>	<u>\$ 8,560,509</u>

GOVERNMENTAL FUNDS

Net change in Fund Balances - Total Governmental Funds	\$ (11,565,490)
--	-----------------

Governmental funds report capital outlays as expenditures; in the statement of activities, these costs are allocated over their estimated useful lives as depreciation.

Depreciation expense	(719,956)
----------------------	-----------

Capital outlays	<u>12,726,808</u>
-----------------	-------------------

Total	12,006,852
-------	------------

Amortization of bond costs is recorded as an expenditure in the statement of activities, it is reported in the governmental funds in the year the bonds are issued	(25,072)
--	----------

Proceeds from bond and note issuance is an other financing source in the governmental funds, but not in the statement of activities (where it increases long-term debt) (20,719,674)

Accrued interest is recorded in the statement of activities when incurred; it is not reported in governmental funds until paid	(100,885)
--	-----------

Increases in compensated absences are reported as expenditures when financial resources are used in the governmental funds	(97,518)
--	----------

Repayment of bond principal and note principal is an expenditure in the governmental funds, but not in the statement of activities (where it reduces long-term debt)	20,524,383
--	------------

Amortization of bond discounts is recorded as an expenditure in the statement of activities, it is reported in the governmental funds in the year the bonds are issued	(4,667)
--	---------

Amortization of bond premiums is recorded as a revenue in the statement of activities, it is reported in the governmental funds in the year the bonds are issued	3,772
--	-------

- 16 -

PENNFIELD SCHOOLS

GOVERNMENTAL FUNDS

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES
YEAR ENDED June 30, 2007

Amortization of the gain in a bond refunding, is reported as an increase in interest expense in the statement of activities, it is reported as a reduction in bond debt in the statement of net assets	(111,359)
Bond issuance costs are recorded as an expenditure in the governmental funds but not in the statement of activities (where it is amortized over the life of the bond issue)	311,501
Bond discounts are recorded as an other financing use in the governmental funds but not in the statement of activities (where it is amortized over the life of the bond issue)	<u>222,333</u>
Change in Net Assets of Governmental Activities	<u>\$ 444,176</u>

See Notes to Financial Statements

PENNFIELD SCHOOLS
FIDUCIARY FUND
STATEMENT OF FIDUCIARY NET ASSETS
JUNE 30, 2007

Student
Activities
Agency Fund

ASSETS

Cash and cash equivalents

\$ 232,545

LIABILITIES

Due to student groups

\$ 232,545

See Notes to Financial Statements

PENNFIELD SCHOOLS

NOTES TO FINANCIAL STATEMENTS
June 30, 2007

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of Pennfield Schools conform to accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental units. The following is a summary of the significant accounting policies used by the School District:

Reporting Entity

The School District is governed by an elected seven-member Board of Education. The accompanying financial statements have been prepared in accordance with criteria established by the Governmental Accounting Standards Board for determining the various governmental organizations to be included in the reporting entity. These criteria include significant operational financial relationships that determine which of the governmental organizations are a part of the School Districts' reporting entity, and which organizations are legally separate, component units of the school district. Based on the application of the criteria, the district does not contain any component units.

District-Wide and Fund Financial Statements

The district-wide financial statements (i.e., the statement of net assets and the statement of changes in net assets) report information on all of the nonfiduciary activities of the primary government. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. All the district's government wide activities are considered governmental activities.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenue includes (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Taxes, intergovernmental payments, and other items not properly included among program revenues are reported instead as general revenue.

Separate financial statements are provided for governmental funds and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements.

PENNFIELD SCHOOLS

NOTES TO FINANCIAL STATEMENTS
June 30, 2007

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

District-Wide Statements - The district-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenue in the year for which they are levied. Grants, categorical aid, and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements.

Amounts reported as program revenue include (1) charges to customer or applicants for goods, services, or privileges provided; (2) operating grants and contributions; and (3) capital grants and contributions. Internally dedicated resources are reported as general revenue rather than as program revenue. Likewise, general revenue includes all taxes and unrestricted State aid.

Fund-based Statements - Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Property taxes, unrestricted State aid, intergovernmental grants, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenue of the current fiscal period. All other revenue items are considered to be available only when cash is received by the government.

Fiduciary fund statements also are reported using the economic resources measurement focus and the accrual basis of accounting.

The school district reports the following major governmental funds:

The General Fund is the school district's primary operating fund. It accounts for all financial resources of the district, except those required to be accounted for in another fund.

PENNFIELD SCHOOLS

NOTES TO FINANCIAL STATEMENTS

June 30, 2007

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

The 2004 Capital Projects Fund is used to record bond proceeds or other revenue and the disbursement of funds specifically designated for acquiring new school sites, buildings, equipment and for major remodeling and repairs. The fund is retained until the purpose for which the fund was created has been accomplished.

The Debt Service Fund is used to record tax, interest, other revenue for payment, principle and other expenditures on the bond issues.

Additionally, the government reports the following fund types:

Special Revenue Funds are used to account for the proceeds of specific revenue sources that are restricted to expenditures for specified purposes.

The School Service Funds are Special Revenue Funds that segregate, for administrative purposes, the transactions of a particular activity from regular revenue and expenditure accounts. The School District maintains full control of these funds. The School Service Funds maintained by the School District are the Athletic Fund and Food Services Fund.

Fiduciary Funds are used to account for assets held by the School District in a trustee capacity or as an agent. Fiduciary Fund net assets and results of operations are not included in the government-wide statements. Agency Funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations.

The School District presently maintains a Student Activities Fund to record the transactions of student and parent groups for school and school-related purposes. The funds are segregated and held in trust for the students and parents.

Assets, Liabilities, and Net Assets or Equity

Deposits and Investments - Cash and cash equivalents include cash on hand, demand deposits, and short-term investments with a maturity of three months or less when acquired. Investments are stated at fair value.

Receivables and Payables - In general, outstanding balances between funds are reported as "due to/from other funds." Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as "advances to/from other funds."

PENNFIELD SCHOOLS

NOTES TO FINANCIAL STATEMENTS
June 30, 2007

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Property tax and other trade receivables are shown net of an allowance for uncollectible amounts. Property taxes are assessed as of December 31 and the related property taxes become a lien on December 1 of the following year. Taxes are considered delinquent on March 1 of the following year. At this time, penalties and interest are assessed and the total obligation is added to the county tax rolls.

The State of Michigan utilized a foundation allowance approach, which provides for a specific annual amount of revenue per student based on a state-wide formula. The foundation allowance is funded from a combination of state and local sources. Revenues from state sources are primarily governed by the School Aid Act and the School Code of Michigan. The state portion of the foundation is provided from the state's School Aid Fund and is recognized as revenue in accordance with state law and accounting principles generally accepted in the United States of America.

The District also receives revenue from the state to administer certain categorical education programs. State rules require that revenue earmarked for these programs be used for its specific purpose. Certain categorical funds require an accounting to the state of the expenditures incurred. For categorical funds meeting this requirement, funds received, which are not expended by the close of the fiscal year are recorded as deferred revenue. Other categorical funding is recognized when the appropriation is received.

Inventories and Prepaid Items - Inventories are valued at cost, on a first-in, first-out basis. Inventories of governmental funds are recorded as expenditures when consumed rather than when purchased. Certain payments to vendors reflect costs applicable to future fiscal years and are recorded as prepaid items in both government-wide and fund financial statements.

Capital Assets - Capital assets, which include land, buildings, equipment, and vehicles are reported in the applicable governmental column in the government-wide financial statements. Capital assets are defined by the government as assets with an initial individual cost of more than \$5,000 and an estimated useful life in excess of five years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. Costs of normal repair and maintenance that do not add to the value or materially extended asset life are not capitalized. The school district does not have infrastructure type assets.

PENNFIELD SCHOOLS

NOTES TO FINANCIAL STATEMENTS
June 30, 2007

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Buildings, equipment, and vehicles are depreciated using the straight-line method over the following useful lives:

Buildings and additions	20-50 years
Buses and other vehicles	5-10 years
Furniture and other equipment	5-10 years

Compensated Absences - The liability for compensated absences reported in the government-wide statements consists of unpaid, accumulated annual sick leave balances. The liability has been calculated using the vesting method, in which leave amounts for both employees who are currently eligible to receive termination payments and other employees who are expected to become eligible in the future to receive such payments upon termination are included.

Long-Term Obligations - In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the statement of net assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period.

Premiums received on debt issuances are reported as other financing sources while discounts are reported as other financing uses. Issuance costs are reported as debt service expenditures.

Fund equity - In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

Use of Estimates - The preparation of the financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reported period. Actual results could differ from those estimates.

PENNFIELD SCHOOLS

NOTES TO FINANCIAL STATEMENTS
June 30, 2007

NOTE 2 - STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

Budgetary Information - Annual budgets are adopted on a basis consistent with generally accepted accounting principles and state law for the general and special revenue funds. All annual appropriations lapse at fiscal year end.

The budget document presents information by fund and function. The legal level of budgetary control adopted by the governing body (i.e., the level at which expenditures may not legally exceed appropriations) is the function level. State law requires the district to have its budget in place by July 1. Expenditures in excess of amounts budgeted is a violation of Michigan Law. State law permits districts to amend its budgets during the year. There were no significant amendments during the year.

Encumbrance accounting is employed in governmental funds. Encumbrances (e.g., purchase orders, contracts) outstanding at year end are reported as reservations of fund balances and do not constitute expenditures or liabilities because the goods or services have not been received as of year end; the commitments will be reappropriated and honored during the subsequent year.

Excess of Expenditures Over Appropriations in Budgeted Funds - The School district did not have significant expenditure budget variances.

Capital Projects Fund Compliance - The Capital Projects Funds include capital project activities funded with bonds issued after May 1, 1994. For these capital projects, the School District has complied with the applicable provisions of 1351a of the State of Michigan's School Code.

PENNFIELD SCHOOLS

NOTES TO FINANCIAL STATEMENTS
June 30, 2007

NOTE 3 - CASH AND CASH EQUIVALENTS

The School District's cash and cash equivalents at June 30, 2007, are composed of the following:

	<u>Governmental Activities</u>	<u>Fiduciary Funds</u>	<u>Total Primary Government</u>
Deposits	<u>\$ 8,733,617</u>	<u>\$ 232,545</u>	<u>\$ 8,966,162</u>

Deposits consist of checking, savings, and bank municipal investment funds. The above deposits were reflected in the accounts of the bank (without recognition of checks written but not yet cleared, or of deposits in transit) at \$9,488,839. Of that amount, \$117,804 was covered by federal depository insurance coverage or secured and \$3,566,236 was uninsured and uncollateralized. The balance of \$5,804,799 was invested in bank municipal investment funds which are not categorized by risk.

The School District believes that due to the dollar amounts of cash deposits and the limits of FDIC insurance, it is impractical to insure all bank deposits. The School District evaluates each financial institution it deposits School District funds with and assesses the level of risk of each institution; only those institutions with an acceptable estimated risk level are used as depositories.

NOTE 4 - DEFERRED REVENUE

Governmental funds report deferred revenue in connection with receivables for revenue that is not considered to be available to liquidate liabilities of the current period. Governmental funds also defer revenue recognition in connection with resources that have been received but not yet earned. At the end of the current fiscal year, the various components of deferred revenue include unearned grant and categorical aid payments received prior to meeting all eligibility requirements in the amount of \$56,648.

PENNFIELD SCHOOLS

NOTES TO FINANCIAL STATEMENTS
June 30, 2007

NOTE 5 - CAPITAL ASSETS

Capital asset activity of the School District's governmental activities was as follows:

	Balance <u>July 1, 2006</u>	<u>Additions</u>	Disposals and <u>Adjustments</u>	Balance <u>June 30, 2007</u>
Assets not being depreciated - Land	\$ 726,135	\$ -	\$ -	\$ 726,135
Capital assets being depreciated:				
Buildings and building improvements	13,521,896	29,800	-	13,551,696
Buses and other vehicles	1,365,016	65,131	43,299	1,386,848
Furniture and equipment	2,830,315	173,445	-	3,003,760
Construction in progress	<u>12,035,056</u>	<u>12,458,432</u>	<u>-</u>	<u>24,493,488</u>
Subtotal	29,752,283	12,726,808	43,299	42,435,792
Accumulated depreciation:				
Buildings and building improvements	4,945,301	401,537	-	5,346,838
Buses and other vehicles	1,129,872	41,766	43,299	1,128,339
Furniture and equipment	<u>1,789,234</u>	<u>276,653</u>	<u>-</u>	<u>2,065,887</u>
Subtotal	<u>7,864,407</u>	<u>719,956</u>	<u>43,299</u>	<u>8,541,064</u>
Net capital assets being depreciated	<u>21,887,876</u>			<u>33,894,728</u>
Net capital assets	<u>\$ 22,614,011</u>			<u>\$ 34,620,863</u>

Depreciation expense was not charged to activities as the School District considers its assets to impact multiple activities and allocation is not practical.

The School District has active construction projects at year end. These construction projects are being completed from funds received by the \$27,915,000 2004 Building and Site Bond Issue and additional funds from the General Fund. The District's cumulative expenditures at June 30, 2007 from the bond issue amounted to \$24,791,476.

PENNFIELD SCHOOLS

NOTES TO FINANCIAL STATEMENTS
June 30, 2007

NOTE 6 - INTERFUND RECEIVABLES, PAYABLES, AND TRANSFERS

The composition of interfund balances is as follows:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
Due To/From Other Funds:		
General Fund	2004 Capital Projects Fund	\$ 17,708
General Fund	Other governmental funds	37,136
Debt Fund	General Fund	12,146
2004 Capital Projects Fund	General Fund	22,142
Other governmental funds	General Fund	<u>26,436</u>
		<u>\$ 115,568</u>
Interfund Transfers:		
	Transfer Out:	
	General Fund	
Transfer in:		
Other governmental funds	<u>\$ 461,564</u>	

NOTE 7 - LONG-TERM DEBT

The school district issues bonds, notes, and other contractual commitments to provide for the acquisition and construction of major capital facilities and the acquisition of certain equipment. General obligation bonds are direct obligations and pledge the full faith and credit of the school district. Other long-term obligations include compensated absences.

Long-term obligation activity can be summarized as follows:

Governmental Activities

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Bonds	\$35,265,580	\$19,995,000	19,405,000	\$35,855,580	<u>\$ 865,000</u>
Notes	20,000	-	10,000	10,000	<u>\$ 10,000</u>
Deposits with escrow agents	(169,476)	(1,109,383)	(111,359)	(1,167,500)	<u>\$ (214,975)</u>
School bond loan	1,212,511	724,674	-	1,937,185	<u>\$ -</u>
Other Obligations	<u>306,900</u>	<u>104,518</u>	<u>7,000</u>	<u>404,418</u>	<u>\$ 117,114</u>
Totals	<u>\$36,635,515</u>	<u>\$19,714,809</u>	<u>\$19,310,641</u>	<u>\$37,039,683</u>	

PENNFIELD SCHOOLS

NOTES TO FINANCIAL STATEMENTS
June 30, 2007

NOTE 7 - LONG-TERM DEBT - (Continued)

The annual requirement to service the bonds and notes outstanding to maturity, including both principal and interest, are as follows:

Year ended <u>June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2008	\$ 875,000	\$ 1,478,650	\$ 2,353,650
2009	953,226	1,425,725	2,378,951
2010	1,018,963	1,392,208	2,411,171
2011	1,029,028	1,346,223	2,375,251
2012	1,079,456	1,307,868	2,387,324
2013-2017	5,929,907	5,873,553	11,803,460
2018-2022	7,225,000	4,545,521	11,770,521
2023-2027	7,835,000	2,956,556	10,791,556
2028-2032	7,090,000	1,464,059	8,554,059
2033-2037	<u>2,830,000</u>	<u>178,080</u>	<u>3,008,080</u>
	<u>\$35,865,580</u>	<u>\$21,968,443</u>	<u>\$57,834,023</u>

Governmental Activities:

General obligation bonds consist of:

\$9,105,000 2000 School Building and Site bonds due in annual installments of \$270,000 to \$400,000 through May 1, 2010; interest from 5.00% to 5.125%	\$ 1,200,000
\$147,808 1998 School Improvement Bond (Durant Settlement) the annual principal and interest payments are to be paid directly by the State of Michigan	60,580
\$27,915,000 2004 School Building and Site Fund Bonds due in annual installments of \$280,000 to \$900,000 through May 2020; interest from 3.0% to 4.5%	8,330,000
\$6,340,000 2005 Refunding Bonds due in annual installments of \$35,000 to \$410,000 through May 2025; interest from 3.0% to 4.45%	6,270,000
\$10,000,000 2006 Refunding Bonds due in annual installments of \$35,000 to \$1,410,000 through May 2034; interest from 4.0% to 4.2%	10,000,000

PENNFIELD SCHOOLS

NOTES TO FINANCIAL STATEMENTS
June 30, 2007

NOTE 7 - LONG-TERM DEBT - (Continued)

\$9,995,000 Refunding Bonds due in annual installments of \$30,000 to \$1,345,000 through May 2028; interest from 4.0% to 4.125% 9,995,000

Total bonds payable \$ 35,855,580

Notes payable consist of:

Land contract payable to non-profit organization, annual payments of \$10,000 through 2008, plus interest at -0-%, secured by real estate \$ 10,000

Other governmental activity long-term obligations include:

Employee compensated absences \$ 404,418

School Bond Loan - The school bond loan payable represent notes payable to the State of Michigan for loans made to the School District, as authorized by the 1963 State of Michigan Constitution, for the purpose of paying principal and interest on general obligation bonds of the School District issued for capital expenditures. Borrowings by the School District from the School Bond Loan Fund totaled \$1,937,185 at the year ended June 30, 2007. Interest expense totaling \$70,754 at interest rates of 4.75% and 4.82341%, has been assessed for the year ended June 30, 2007. Repayment is required when the millage rate necessary to cover the annual bonded debt service falls below 13 mills or such lower millage as prescribed by law. The School District is required to levy the aforementioned mills and repay to the State any excess of the amount levied over the bonded debt service requirements. Due to the variability of the factors that affect the timing of repayment, including the future amount of state-equalized value of property in the School District, no provision for repayment has been included in the above amortization schedule.

Defeased Debt - During the year ended June 30, 2007, the District issued \$10,000,000 in general obligation bonds with an average interest rate of 4.27%. The proceeds were used to advance refund \$9,365,000 of \$27,300,000 outstanding 2004 bonds with an average interest rate of 5.0%. The net proceeds of \$9,685,068 (after payment of \$143,883 in underwriting fees, insurance, and other costs and \$167,618 in original issue discount) were used to purchase U.S. Government Securities. Those securities were deposited in an irrevocable trust with an escrow agent to provide for all future debt service payments on the refunded 2004 bonds.

PENNFIELD SCHOOLS

NOTES TO FINANCIAL STATEMENTS

June 30, 2007

NOTE 7 - LONG-TERM DEBT - (Continued)

As a result, a part of the bonds are considered to be defeased, and the liability for those bonds has been removed from the General Long-Term Debt Account Group. The advance refunding reduces total debt service payments over the next 27 years by approximately \$1,571,720, which represents an economic gain of approximately \$504,629.

During the year ended June 30, 2007, the District also issued \$9,995,000 in general obligation bonds with an average interest rate of 4.14%. The proceeds were used to advance refund \$9,205,000 of the remaining \$17,935,000 (after the previous refunding) of 2004 bonds with an average interest rate of 4.86%. The net proceeds of \$9,994,315 (after payment of \$134,465 in underwriting fees, insurance and other costs and \$87,868 in original issue discount less \$225,000 provided by the General Fund) were used to purchase U.S. Government Securities. Those securities were deposited in an irrevocable trust with an escrow agent to provide for all future debt service payments on the refunded 2004 bonds. As a result, a part of the bonds are considered to be defeased, and the liability for those bonds has been removed from the General Long-Term Debt Account Group. The advance refunding reduces total debt service payments over the next 21 years by approximately \$931,385, which represents an economic gain of approximately \$331,594.

NOTE 8 - RISK MANAGEMENT

The School District is exposed to various risks of loss related to property loss, torts, errors and omissions, and employee injuries (workers' compensation), as well as medical benefits provided to employees. The School District has purchased commercial insurance for property loss, torts, errors and omissions, and medical claims for certain employee groups. Settled claims relating to the commercial insurance have not exceeded the amount of insurance coverage in any of the past three fiscal years.

PENNFIELD SCHOOLS

NOTES TO FINANCIAL STATEMENTS
June 30, 2007

NOTE 9 - DEFINED BENEFIT PENSION PLAN AND POST RETIREMENT BENEFITS

Plan Description - The School District participates in the Michigan Public School Employees' Retirement System (MPERS), a statewide, cost-sharing, multiple-employer defined benefit public employee retirement system governed by the State of Michigan that covers substantially all employees of the District. The system provides retirement, survivor and disability benefits to plan members and their beneficiaries. The Michigan Public School Employees' Retirement System issues a publicly available financial report that includes financial statements and required supplementary information for the system. That report may be obtained by writing to the system at 7150 Harris Drive, P.O. Box 30673, Lansing, MI 48909-8103.

Funding Policy - Employer contributions to the system result from the implementing effect of the School Finance Reform Act. Under these procedures, each school district is required to contribute the full actuarial funding contribution amount to fund pension benefits, plus an additional amount to fund retiree health care benefit amounts on a cash disbursement basis.

The pension benefit rate totals 16.34 percent for the period July 1, 2006 through September 30, 2006 and 17.74 percent for the period October 1, 2006 through June 30, 2007 of the covered payroll to the plan. Basic plan members make no contributions, but Member Investment Plan members contribute at rates ranging from 3 percent to 4.3 percent of gross wages. The District's contributions to the MPERS plan for the years ended June 30, 2007, 2006, and 2005 were \$1,557,001, \$1,434,851, and \$1,239,914.

Post Employment Benefits - Under the MPERS Act, all retirees participating in the MPERS Pension Plan have the option of continuing health, dental, and vision coverage. Retirees having these coverages contribute an amount equivalent to the monthly cost for Part B Medicare and 10 percent of the monthly premium amount for the health, dental, and vision coverages. Required contributions for post employment health care benefits are included as part of the District's total contribution to the MPERS plan discussed above.

REQUIRED SUPPLEMENTAL INFORMATION

PENNFIELD SCHOOLS

REQUIRED SUPPLEMENTAL INFORMATION
BUDGETARY COMPARISON SCHEDULE - GENERAL FUND
YEAR ENDED June 30, 2007

	Original Budget	Final Budget	Actual	Over (under) Final Budget
Revenues:				
Local sources	\$ 1,025,006	\$ 1,023,943	\$ 1,037,071	\$ 13,128
State sources	13,427,092	13,589,997	13,589,822	(175)
Federal sources	245,169	242,123	257,656	15,533
Interdistrict	<u>578,000</u>	<u>573,865</u>	<u>572,600</u>	<u>(1,265)</u>
Total revenue	15,275,267	15,429,928	15,457,149	27,221
Expenditures:				
Instruction:				
Basic programs	7,960,942	7,959,240	7,844,960	(114,280)
Added needs	1,269,718	1,326,082	1,294,933	(31,149)
Support services:				
Pupil	500,999	514,499	492,419	(22,080)
Instructional staff	815,018	818,535	690,687	(127,848)
General administration	282,624	279,171	248,340	(30,831)
School administration	1,188,050	1,194,134	1,150,285	(43,849)
Business services	210,306	210,306	206,527	(3,779)
Operations and maintenance	1,481,615	1,617,436	1,518,268	(99,168)
Security services	73,305	80,527	77,632	(2,895)
Transportation	828,105	954,864	917,087	(37,777)
Technology services	224,231	224,231	303,301	79,070
Other supporting services	20,925	20,925	32,985	12,060
Community services	24,075	29,075	32,781	3,706
Debt service	20,000	10,000	10,000	-
Interdistrict	<u>70,000</u>	<u>16,454</u>	<u>24,965</u>	<u>8,511</u>
Total expenditures	<u>14,969,913</u>	<u>15,255,479</u>	<u>14,845,170</u>	<u>(410,309)</u>
Excess (deficiency) of revenues over expenditures	305,354	174,449	611,979	437,530
Other financing sources (uses):				
Operating transfers out	<u>(472,341)</u>	<u>(472,341)</u>	<u>(461,564)</u>	<u>(10,777)</u>
Total other financing sources (uses)	<u>(472,341)</u>	<u>(472,341)</u>	<u>(461,564)</u>	<u>(10,777)</u>
Net change in fund balance	(166,987)	(297,892)	150,415	448,307
Fund balance, July 1	<u>3,155,682</u>	<u>3,155,682</u>	<u>3,155,682</u>	<u>-</u>
Fund balance, June 30	<u>\$ 2,988,695</u>	<u>\$ 2,857,790</u>	<u>\$ 3,306,097</u>	<u>\$ 448,307</u>

OTHER SUPPLEMENTAL INFORMATION

PENNFIELD SCHOOLS
OTHER SUPPLEMENTAL INFORMATION
GENERAL FUND
STATEMENT OF REVENUES
YEAR ENDED JUNE 30, 2007

REVENUES

Revenues from local sources	
Current property taxes	\$ 924,713
Interest on investments	77,550
Tuition and fees	740
Miscellaneous revenues	<u>34,068</u>
Total revenues from local sources	1,037,071
Revenues from state sources	
Foundation	12,911,860
At Risk	241,901
Early childhood education	52,800
Special education	353,379
Durant Settlement	17,277
Middle School math and science	1,967
Other grants	<u>10,638</u>
Total revenues from state sources	13,589,822
Revenues from federal sources	
Title I	166,331
Title IIA Improving Teacher Quality	69,186
Technology Literacy	1,707
Professional Development	2,320
Title V LEA Allocation	399
Drug-Free Schools	4,122
Homeland Security	3,691
Service Provider Self Review	4,500
Learn and Serve	<u>5,400</u>
Total revenues from federal sources	257,656
Revenues from other districts	
Other programs	70,187
Special education - local reimb.	<u>502,413</u>
Total revenues from other districts	<u>572,600</u>
Total revenues	<u>\$ 15,457,149</u>

PENNFIELD SCHOOLS
OTHER SUPPLEMENTAL INFORMATION
GENERAL FUND
STATEMENT OF OPERATING EXPENDITURES
YEAR ENDED JUNE 30, 2007

INSTRUCTION

Basic Programs

Pre-school	
Salaries	\$ 63,596
Employee benefits	21,675
Contracted services	8,956
Supplies and materials	<u>1,073</u>
Total pre-school instructional expenditures	95,300

Elementary

Salaries	2,298,328
Employee benefits	960,747
Contracted services	81,028
Supplies and materials	56,474
Capital outlay	<u>11,394</u>
Total elementary instruction expenditures	3,407,971

Middle School

Salaries	1,261,486
Employee benefits	545,979
Contracted services	52,749
Supplies and materials	91,181
Capital outlay	<u>-</u>
Total middle school instruction expenditures	1,951,395

High School

Salaries	1,564,990
Employee benefits	681,090
Contracted services	58,946
Supplies and materials	77,389
Capital outlay	<u>7,879</u>
Total high school instruction expenditures	<u>2,390,294</u>

Total basic programs	7,844,960
----------------------	-----------

PENNFIELD SCHOOLS

OTHER SUPPLEMENTAL INFORMATION
GENERAL FUND

STATEMENT OF OPERATING EXPENDITURES - Continued
YEAR ENDED JUNE 30, 2007

INSTRUCTION - Continued

Added Needs

Special education

Salaries	548,231
Employee benefits	228,077
Purchased services	75,485
Supplies and materials	<u>6,574</u>

Total special education instruction expenditures	858,367
---	---------

Compensatory education

Salaries	139,323
Employee benefits	52,964
Purchased services	1,528
Supplies and materials	<u>849</u>

Total compensatory education instruction expenditures	194,664
--	---------

At Risk education

Salaries	165,890
Employee benefits	66,579
Purchased services	9,173
Supplies and materials	<u>260</u>

Total at risk education instruction expenditures	<u>241,902</u>
---	----------------

Total added needs	<u>1,294,933</u>
-------------------	------------------

Total instruction expenditures	9,139,893
--------------------------------	-----------

PENNFIELD SCHOOLS

OTHER SUPPLEMENTAL INFORMATION
GENERAL FUND

STATEMENT OF OPERATING EXPENDITURES - Continued
YEAR ENDED JUNE 30, 2007

SUPPORTING SERVICES

Pupil Services

Guidance services

Salaries	220,815
Employee benefits	102,077
Purchased services	185
Supplies and materials	<u>3,127</u>

Total guidance services 326,204

Health services

Purchased services	14,676
Supplies	<u>165</u>

Total health services 14,841

Student supervision services

Salaries	118,738
Employee benefits	<u>32,636</u>

Total student supervision services 151,374

Total pupil services 492,419

Instructional Staff Services

Improvement of instruction

Salaries	-
Employee benefits	-
Purchased services	<u>8,291</u>

Total improvement of instruction 8,291

Library services

Salaries	165,432
Employee benefits	63,808
Supplies and materials	<u>30,100</u>

Total library expenditures 259,340

PENNFIELD SCHOOLS

OTHER SUPPLEMENTAL INFORMATION

GENERAL FUND

STATEMENT OF OPERATING EXPENDITURES - Continued

YEAR ENDED JUNE 30, 2007

SUPPORTING SERVICES - Continued

Instructional Staff Services - continued

Technology services	
Salaries	88,322
Employee benefits	40,242
Contracted services	28,781
Supplies and materials	9,170
Capital outlay	<u>124,108</u>

 Total technology services 290,623

Supervision and direction	
Salaries	86,597
Employee benefits	39,185
Purchased services	5,568
Supplies	555
Capital outlay	399
Other	<u>129</u>

 Total supervision 132,433

 Total instructional staff services 690,687

General Administrative Services

Board of education	
Salaries	1,850
Contracted services	42,663
Supplies	2,502
Other	<u>6,694</u>

 Total board of education expenditures 53,709

Executive administration	
Salaries	135,709
Employee benefits	50,890
Contracted services	6,030
Supplies	272
Capital outlay	629
Other	<u>1,101</u>

 Total executive
 administration expenditures 194,631

 Total general administrative services 248,340

PENNFIELD SCHOOLS

OTHER SUPPLEMENTAL INFORMATION
GENERAL FUND

STATEMENT OF OPERATING EXPENDITURES - Continued
YEAR ENDED JUNE 30, 2007

SUPPORTING SERVICES - Continued

School Administrative Services

Office of the Principal

Salaries	698,499
Employee benefits	336,778
Contracted services	96,896
Supplies and material	5,534
Capital outlay	798
Other	<u>5,057</u>

Total office of the principal 1,143,562

Other School Administration

Supplies	<u>6,723</u>
----------	--------------

Total school administrative expenditures 1,150,285

Business Services

Fiscal charges

Salaries	122,596
Employee benefits	47,900
Contracted services	7,844
Supplies and materials	1,619
Capital outlay	1,826
Other	<u>17,638</u>

Total fiscal charges expenditures 199,423

Internal Support Services

Salaries	5,670
Employee benefits	<u>1,434</u>

Total internal support services expenditures 7,104

Total business services expenditures 206,527

PENNFIELD SCHOOLS
OTHER SUPPLEMENTAL INFORMATION
GENERAL FUND
STATEMENT OF OPERATING EXPENDITURES - Continued
YEAR ENDED JUNE 30, 2007

SUPPORTING SERVICES - Continued

Operation and Maintenance

Operation and maintenance of plant

Salaries	477,419
Employee benefits	254,722
Contracted services	123,708
Supplies and materials	393,780
Capital outlay	<u>268,639</u>

Total operation and maintenance of plant expenditures	1,518,268
---	-----------

Security Services

Purchased services	73,741
Supplies and materials	<u>3,891</u>

Total security services expenditures	77,632
--------------------------------------	--------

Pupil Transportation

Pupil transportation services

Salaries	430,980
Employee benefits	156,142
Contracted services	51,695
Supplies and materials	168,261
Capital outlay	107,119
Other	<u>2,890</u>

Total pupil transportation services	917,087
-------------------------------------	---------

Technology Supporting Services

Salaries	182,767
Employee benefits	65,750
Contracted services	<u>54,784</u>

Total technology supporting services expenditures	303,301
---	---------

Other Supporting Services

Contracted services	<u>32,985</u>
---------------------	---------------

Total supporting services expenditures	5,637,531
--	-----------

PENNFIELD SCHOOLS
OTHER SUPPLEMENTAL INFORMATION
GENERAL FUND
STATEMENT OF OPERATING EXPENDITURES - Continued
YEAR ENDED JUNE 30, 2007

SUPPORTING SERVICES - Continued

COMMUNITY SERVICES

Community Recreation Services	
Salaries	23,573
Employee benefits	5,914
Contracted services	407
Supplies and materials	2,653
Other	<u>234</u>
Total community recreation services	32,781

DEBT SERVICE

Principal repayment	10,000
Interest and fiscal charges	<u>-</u>
Total debt service	10,000

OTHER DISTRICTS

Purchased services	<u>24,965</u>
Total operating expenditures	<u><u>\$ 14,845,170</u></u>

PENNFIELD SCHOOLS

OTHER SUPPLEMENTAL INFORMATION
COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS
JUNE 30, 2007

Special Revenue Funds

	<u>Food Services</u>	<u>Athletics</u>	<u>Total</u>
<u>ASSETS</u>			
Cash and cash equivalents	\$ 103,338	\$ -	\$ 103,338
Accounts receivable	-	-	-
Due from other governmental units	-	-	-
Due from other funds	26,436	-	26,436
Inventory	7,296	-	7,296
Prepaid expenditures	-	-	-
Total assets	<u>\$ 137,070</u>	<u>\$ -</u>	<u>\$ 137,070</u>

LIABILITIES AND FUND BALANCES

Liabilities:			
Accounts payable	\$ -	\$ -	\$ -
Accrued payroll	-	-	-
Accrued benefits	-	-	-
Due to other funds	<u>37,136</u>	<u>-</u>	<u>37,136</u>
Total liabilities	37,136	-	37,136
Fund balances:			
Reserved for prepaid expenditures	-	-	-
Reserved for inventory	7,295	-	7,295
Unreserved:			
Undesignated	<u>92,639</u>	<u>-</u>	<u>92,639</u>
Total fund balances	<u>99,934</u>	<u>-</u>	<u>99,934</u>
Total liabilities and fund balances	<u>\$ 137,070</u>	<u>\$ -</u>	<u>\$ 137,070</u>

PENNFIELD SCHOOLS

OTHER SUPPLEMENTAL INFORMATION
 COMBINING STATEMENT OF REVENUES, EXPENDITURES
 AND CHANGES IN FUND BALANCES - NONMAJOR GOVERNMENTAL FUND
 YEAR ENDED JUNE 30, 2007

	<u>Special Revenue Funds</u>		
	<u>Food Services</u>	<u>Athletics</u>	<u>Total</u>
Revenues:			
Local sources	\$ 261,054	\$ 52,852	\$ 313,906
State sources	24,777	-	24,777
Federal sources	<u>253,740</u>	<u>-</u>	<u>253,740</u>
Total revenues	539,571	52,852	592,423
Expenditures:			
Food services	575,125	-	575,125
Athletics	<u>-</u>	<u>514,416</u>	<u>514,416</u>
Total expenditures	<u>575,125</u>	<u>514,416</u>	<u>1,089,541</u>
Excess (deficiency) of revenues over expenditures	(35,554)	(461,564)	(497,118)
Other Financing Sources (Uses):			
Operating transfers in	<u>-</u>	<u>461,564</u>	<u>461,564</u>
Net change in fund balances	(35,554)	-	(35,554)
Fund balances, July 1	<u>135,488</u>	<u>-</u>	<u>135,488</u>
Fund balances, June 30	<u>\$ 99,934</u>	<u>\$ -</u>	<u>\$ 99,934</u>

PENNFIELD SCHOOLS

OTHER SUPPLEMENTAL INFORMATION
 FOOD SERVICE FUND
 STATEMENT OF REVENUES, EXPENDITURES, AND
 CHANGES IN FUND BALANCE - BUDGET AND ACTUAL
 YEAR ENDED JUNE 30, 2007

	<u>Budget</u>	<u>Actual</u>	<u>Over (Under) Budget</u>
Revenues:			
Local sources	\$ 250,000	\$ 261,054	\$ 11,054
State sources	24,000	24,777	777
Federal sources	<u>250,000</u>	<u>253,740</u>	<u>3,740</u>
Total revenues	524,000	539,571	15,571
Expenditures:			
Salaries	182,000	182,296	296
Employee benefits	47,000	47,335	335
Purchased services	45,000	7,951	(37,049)
Supplies, material and other	255,000	292,751	37,751
Capital outlay	<u>43,500</u>	<u>44,792</u>	<u>1,292</u>
Total expenditures	<u>572,500</u>	<u>575,125</u>	<u>2,625</u>
Net change in fund balances	(48,500)	(35,554)	12,946
Fund balance - July 1	<u>135,488</u>	<u>135,488</u>	<u>-</u>
Fund balance - June 30	<u>\$ 86,988</u>	<u>\$ 99,934</u>	<u>\$ 12,946</u>

PENNFIELD SCHOOLS

OTHER SUPPLEMENTAL INFORMATION
ATHLETIC FUND
STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCE - BUDGET AND ACTUAL
YEAR ENDED JUNE 30, 2007

	<u>Budget</u>	<u>Actual</u>	<u>Over (Under) Budget</u>
Revenues:			
Local sources	\$ 52,000	\$ 52,852	\$ 852
Expenditures:			
Salaries	306,000	301,485	(4,515)
Employee benefits	100,000	96,472	(3,528)
Purchased services	18,000	14,087	(3,913)
Supplies, material and other	100,000	102,372	2,372
Capital outlay	<u>-</u>	<u>-</u>	<u>-</u>
Total expenditures	<u>524,000</u>	<u>514,416</u>	<u>(9,584)</u>
Excess (deficiency) of revenues over expenditures	(472,000)	(461,564)	10,436
Other financing sources:			
Operating transfers in	<u>472,000</u>	<u>461,564</u>	<u>(10,436)</u>
Net change in fund balances	-	-	-
Fund balance - July 1	<u>-</u>	<u>-</u>	<u>-</u>
Fund balance - June 30	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>

PENNFIELD SCHOOLS

OTHER SUPPLEMENTAL INFORMATION
STUDENT ACTIVITIES AGENCY FUND
STATEMENT OF CHANGES IN ASSETS AND LIABILITIES
YEAR ENDED JUNE 30, 2007

	Balances			Balances
	<u>June 30, 2006</u>	<u>Additions</u>	<u>Deductions</u>	<u>June 30, 2007</u>
<u>ASSETS</u>				
Cash and cash equivalents	\$ <u>220,792</u>	\$ <u>369,065</u>	\$ <u>357,312</u>	\$ <u>232,545</u>
<u>LIABILITIES</u>				
Due to student groups	\$ <u>220,792</u>	\$ <u>369,065</u>	\$ <u>357,312</u>	\$ <u>232,545</u>

PENNFIELD SCHOOLS

OTHER SUPPLEMENTAL INFORMATION
STATEMENT OF BONDED INDEBTEDNESS
JUNE 30, 2007

2000 SCHOOL BUILDING AND SITE BONDS
(NON-REFUNDED PORTION)

\$ 9,105,000

Balance payable as follows:

<u>Year</u>	<u>Rate</u>	<u>Interest</u>	<u>Principal</u>	<u>Total</u>
2008	5.000	\$ 61,000	\$ 400,000	\$ 461,000
2009	5.125	41,000	400,000	441,000
2010	5.250	<u>20,500</u>	<u>400,000</u>	<u>420,500</u>
Total		<u>\$ 122,500</u>	<u>\$ 1,200,000</u>	<u>\$ 1,322,500</u>

Interest on the bonds of the above issue is payable semi-annually on November 1, and May 1. Principal is payable annually on May 1.

PENNFIELD SCHOOLS

OTHER SUPPLEMENTAL INFORMATION
STATEMENT OF BONDED INDEBTEDNESS
JUNE 30, 2007

1998 SCHOOL IMPROVEMENT BONDS \$ 147,808

Balance payable as follows:

<u>Year</u>	<u>Rate</u>	<u>Interest</u>	<u>Principal</u>	<u>Total</u>
2009	4.76	\$ 2,154	\$ 8,225	\$ 10,379
2010	4.76	7,174	23,963	31,137
2011	4.76	1,352	9,027	10,379
2012	4.76	922	9,456	10,378
2013	4.76	<u>472</u>	<u>9,907</u>	<u>10,379</u>
Total		<u>\$ 12,074</u>	<u>\$ 60,578</u>	<u>\$ 72,652</u>

Interest and principal on the bonds of the above issue is payable annually on May 15. As part of the Durant Settlement the annual principal and interest payments are to be made directly by the State of Michigan.

PENNFIELD SCHOOLS

OTHER SUPPLEMENTAL INFORMATION
STATEMENT OF BONDED INDEBTEDNESS
JUNE 30, 2007

2004 SCHOOL BUILDING AND SITE BONDS \$ 27,915,000
(NON-REFUNDED PORTION)

Balance payable as follows:

<u>Year</u>	<u>Rate</u>	<u>Interest</u>	<u>Principal</u>	<u>Total</u>
2008	3.000	\$ 324,000	\$ 425,000	\$ 749,000
2009	3.250	311,250	475,000	786,250
2010	3.250	295,813	525,000	820,813
2011	3.500	278,750	575,000	853,750
2012	3.500	258,625	625,000	883,625
2013	4.000	236,750	675,000	911,750
2014	4.000	209,750	700,000	909,750
2015	4.000	181,750	725,000	906,750
2016	4.000	152,750	775,000	927,750
2017	4.125	121,750	800,000	921,750
2018	4.500	88,750	850,000	938,750
2019	4.250	50,500	900,000	950,500
2020	4.375	<u>12,250</u>	<u>280,000</u>	<u>292,250</u>
Total		<u>\$ 2,522,688</u>	<u>\$ 8,330,000</u>	<u>\$10,852,688</u>

Interest on the bonds of the above issue is payable semi-annually on November 1 and May 1. Principal is payable annually on May 1.

PENNFIELD SCHOOLS

OTHER SUPPLEMENTAL INFORMATION
STATEMENT OF BONDED INDEBTEDNESS
JUNE 30, 2007

2005 REFUNDING BONDS

\$ 6,340,000

Balance payable as follows:

<u>Year</u>	<u>Rate</u>	<u>Interest</u>	<u>Principal</u>	<u>Total</u>
2008	3.000	\$ 262,300	\$ 40,000	\$ 302,300
2009	3.500	261,100	40,000	301,100
2010	3.500	259,700	40,000	299,700
2011	4.000	258,300	410,000	668,300
2012	4.000	241,900	410,000	651,900
2013	4.000	225,500	410,000	635,500
2014	4.000	209,100	410,000	619,100
2015	4.250	192,700	410,000	602,700
2016	4.250	175,275	410,000	585,275
2017	4.250	157,850	410,000	567,850
2018	4.250	140,425	410,000	550,425
2019	4.250	123,000	410,000	533,000
2020	4.100	105,575	410,000	515,575
2021	4.150	88,765	410,000	498,765
2022	4.300	71,750	410,000	481,750
2023	4.350	54,120	410,000	464,120
2024	4.400	36,285	410,000	446,285
2025	4.450	<u>18,245</u>	<u>410,000</u>	<u>428,245</u>
Total		<u>\$ 2,881,890</u>	<u>\$ 6,270,000</u>	<u>\$ 9,151,890</u>

Interest on the bonds of the above issue is payable semi-annually on November 1 and May 1. Principal is payable annually on May 1.

PENNFIELD SCHOOLS

OTHER SUPPLEMENTAL INFORMATION
STATEMENT OF BONDED INDEBTEDNESS
JUNE 30, 2007

2006 REFUNDING BONDS

\$ 10,000,000

Balance payable as follows:

<u>Year</u>	<u>Rate</u>	<u>Interest</u>	<u>Principal</u>	<u>Total</u>
2008	4.10	\$ 409,890	\$ -	\$ 409,890
2009	4.10	409,890	-	409,890
2010	4.10	409,890	-	409,890
2011	4.10	409,890	-	409,890
2012	4.10	409,890	-	409,890
2013	4.10	409,890	-	409,890
2014	4.10	409,890	-	409,890
2015	4.10	409,890	-	409,890
2016	4.10	409,890	-	409,890
2017	4.10	409,890	-	409,890
2018	4.10	409,890	-	409,890
2019	4.00	409,890	35,000	444,890
2020	4.00	408,490	40,000	448,490
2021	4.00	406,890	55,000	461,890
2022	4.00	404,690	65,000	469,690
2023	4.00	402,090	60,000	462,090
2024	4.00	399,690	60,000	459,690
2025	4.00	397,290	60,000	457,290
2026	4.00	394,890	65,000	459,890
2027	4.00	392,290	65,000	457,290
2028	4.00	389,690	975,000	1,364,690
2029	4.00	350,690	1,440,000	1,790,690
2030	4.00	293,090	1,430,000	1,723,090
2031	4.15	235,890	1,415,000	1,650,890
2032	4.15	177,168	1,405,000	1,582,168
2033	4.20	118,860	1,420,000	1,538,860
2034	4.20	59,220	1,410,000	1,469,220
Total		<u>\$ 9,749,608</u>	<u>\$ 10,000,000</u>	<u>\$ 19,749,608</u>

Interest on the bonds of the above issue is payable semi-annually on November 1 and May 1. Principal is payable annually on May 1.

PENNFIELD SCHOOLS

OTHER SUPPLEMENTAL INFORMATION
STATEMENT OF BONDED INDEBTEDNESS
JUNE 30, 2007

2006 REFUNDING BONDS \$ 9,995,000

Balance payable as follows:

<u>Year</u>	<u>Rate</u>	<u>Interest</u>	<u>Principal</u>	<u>Total</u>
2008	4.000	\$ 421,460	\$ -	\$ 421,460
2009	4.000	400,331	30,000	430,331
2010	4.000	399,131	30,000	429,131
2011	4.000	397,931	35,000	432,931
2012	4.000	396,531	35,000	431,531
2013	4.000	395,131	35,000	430,131
2014	4.000	393,731	40,000	433,731
2015	4.000	392,131	40,000	432,131
2016	4.000	390,531	40,000	430,531
2017	4.000	388,931	40,000	428,931
2018	4.000	387,331	45,000	432,331
2019	4.000	385,531	45,000	430,531
2020	4.000	383,731	720,000	1,103,731
2021	4.000	354,931	1,045,000	1,399,931
2022	4.000	313,131	1,095,000	1,408,131
2023	4.000	269,331	1,165,000	1,434,331
2024	4.000	222,732	1,205,000	1,427,732
2025	4.000	174,532	1,270,000	1,444,532
2026	4.000	123,732	1,310,000	1,433,732
2027	4.000	71,332	1,345,000	1,416,332
2028	4.125	<u>17,532</u>	<u>425,000</u>	<u>442,532</u>
Total		<u>\$ 6,679,685</u>	<u>\$ 9,995,000</u>	<u>\$ 16,674,685</u>

Interest on the bonds of the above issue is payable semi-annually on November 1 and May 1. Principal is payable annually on May 1.

PENNFIELD SCHOOLS

OTHER SUPPLEMENTAL INFORMATION

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

YEAR ENDED June 30, 2007

<u>Federal Grantor/Pass-Through Grantor/ Program Title</u>	<u>Federal CFDA Number</u>	<u>Pass-Through Grantor's Number</u>	<u>Program or Award Amount</u>
<u>U.S. DEPARTMENT OF EDUCATION</u>			
Passed Through State Department of Education:			
Title I - Educationally Deprived	84.010	0715300607 0615300506	\$ 166,331 166,331
Title V LEA allocation	84.298	0702500607	399
Technology Literacy	84.318	0742900607 0642900506	1,707 3,103
Title IIA Teacher Quality	84.367	0742900607 0605200506	69,186 70,260
Hurricane Relief	84.938	0641201	40
Service Provider Self Review	84.027A	070440607	4,500
Total passed through MDE			
Passed Through Intermediate School District:			
Drug Free Schools	84.186		4,122
Promoting Rigorous Outcomes in Math and Science	47.076		1,243
Improvement of Education	84.215		5,339 1,077
Total passed through ISD			

TOTAL DEPARTMENT OF EDUCATION

Notes:

- 1.*Designates Major Program
2. Dollar threshold used to distinguish between Type A and Type B programs - \$300,000.
3. Expenditures in this schedule are in agreement with amounts reported in the financial statements.
4. The amounts reported on the R7120 reconcile with this schedule.

(continued on next page)

Accrued/ (Deferred) Revenue <u>June 30, 2006</u>	(Memo only) Prior Year <u>Expenditures</u>	<u>Expenditures</u>	<u>Receipts</u>	Accrued/ (Deferred) Revenue <u>June 30, 2007</u>
\$ -		\$ 166,331	\$ 166,331	\$ -
<u>76,020</u>	166,331	<u>-</u>	<u>76,020</u>	<u>-</u>
76,020		* 166,331	242,351	-
-		399	399	-
-		1,707	1,707	-
<u>3,103</u>	3,103	<u>-</u>	<u>3,103</u>	<u>-</u>
3,103		1,707	4,810	-
-		69,186	69,186	-
<u>23,110</u>	70,260	<u>-</u>	<u>23,110</u>	<u>-</u>
23,110		69,186	92,296	-
40	40	-	40	-
<u>-</u>		<u>4,500</u>	<u>4,500</u>	<u>-</u>
102,273		242,123	344,396	-
-		4,122	4,192	(70)
-		1,243	1,243	-
1,537	5,339	-	1,537	-
<u>-</u>		<u>1,077</u>	<u>1,077</u>	<u>-</u>
<u>1,537</u>		<u>1,077</u>	<u>2,614</u>	<u>-</u>
<u>1,537</u>		<u>6,442</u>	<u>8,049</u>	<u>(70)</u>
103,810		248,565	352,445	(70)

PENNFIELD SCHOOLS

OTHER SUPPLEMENTAL INFORMATION

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS - Continued
YEAR ENDED June 30, 2007

<u>Federal Grantor/Pass-Through Grantor/ Grantor/Program Title</u>	<u>Federal CFDA Number</u>	<u>Pass-Through Grantor's Number</u>	<u>Program or Award Amount</u>
<u>U.S. DEPARTMENT OF AGRICULTURE</u>			
Passed Through State Department of Education:			
Nutrition Cluster			
National School Lunch Program	10.555	061950	38,570
		061960	140,360
		071950	33,305
		071960	129,704
National School Lunch Breakfast	10.553	061970	42,581
		071970	45,635
Food Distribution			
Entitlement Commodities	10.550		17,555
Bonus Commodities			910

TOTAL DEPARTMENT OF AGRICULTURE

U.S DEPARTMENT OF HOMELAND SECURITY

Passed Through Eastern Michigan University:

TEEN CERT Training Program	97.068
----------------------------	--------

U.S DEPARTMENT OF JUSTICE

Passed Through Calhoun County
Sherrif's Department

2006 COPS Secure Our Schools	97.004
------------------------------	--------

CORPORATION FOR NATIONAL AND
COMMUNITY SERVICE

Passed Through Michigan
Community Service Commission

Learn and Serve America	94.004	6,000
-------------------------	--------	-------

TOTAL FEDERAL FINANCIAL ASSISTANCE

Accrued/ (Deferred) Revenue <u>June 30, 2006</u>	(Memo only) Prior Year <u>Expenditures</u>	<u>Expenditures</u>	<u>Receipts</u>	Accrued/ (Deferred) Revenue <u>June 30, 2007</u>
-	34,392	4,178	4,178	-
-	122,990	17,370	17,370	-
-		33,305	33,305	-
-		<u>129,704</u>	<u>129,704</u>	-
-		184,557	184,557	-
-	37,498	5,083	5,083	-
-		<u>45,635</u>	<u>45,635</u>	-
-		50,718	50,718	-
-		17,555	17,555	-
-		<u>910</u>	<u>910</u>	-
-		<u>18,465</u>	<u>18,465</u>	-
-		253,740	253,740	-
-		200	200	-
-		3,491	-	3,491
-		<u>5,400</u>	-	<u>5,400</u>
<u>\$ 103,810</u>		<u>\$ 511,396</u>	<u>\$ 606,385</u>	<u>\$ 8,821</u>



Norman & Paulsen, P.C.

Certified Public Accountants

127 W. Chicago Road

Sturgis, MI 49091

269.651.3228

Fax 269.651.5146

E-mail

normanpaulsen@charter.net

Other Location:

123 N. Main Street

Three Rivers, MI 49093

269.273.8641

Fax 269.278.8252

E-mail

npnr@npaccounting.com

INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL
OVER FINANCIAL REPORTING AND ON COMPLIANCE
AND OTHER MATTERS BASED ON AN AUDIT FINANCIAL
STATEMENTS PERFORMED IN OF ACCORDANCE
WITH GOVERNMENT AUDITING STANDARDS

To the Board of Education
Pennfield Schools, Michigan

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Pennfield Schools as of and for the year ended June 30, 2007, which collectively comprise Pennfield Schools's basic financial statements and have issued our report thereon dated October 23, 2007. We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting - In planning and performing our audit, we considered Pennfield Schools's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness on the Pennfield Schools's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Pennfield Schools's internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

Donald L. Paulsen, CPA
Patrick J. Monahan, CPA
Bruce S. A. Gosling, CPA
Michael R. Wilson, CPA
Rick L. Strawser, CPA
Jerrel T. Norman (1941-1982)

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters - As part of obtaining reasonable assurance about whether Pennfield Schools's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of the Board of Education, management, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Norman J. Paulson, P.C.

October 23, 2007



Norman & Paulsen, P.C.

Certified Public Accountants

127 W. Chicago Road
Sturgis, MI 49091
269.651.3228
Fax 269.651.5146
E-mail
normanpaulsen@charter.net

Other Location:
123 N. Main Street
Three Rivers, MI 49093
269.273.8641
Fax 269.278.8252
E-mail
npnr@npaccounting.com

REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO
EACH MAJOR PROGRAM AND INTERNAL CONTROL OVER COMPLIANCE
IN ACCORDANCE WITH OMB CIRCULAR A-133

To the Board of Education
Pennfield Schools, Michigan

Compliance - We have audited the compliance of Pennfield Schools with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that are applicable to each of its major federal programs for the year ended June 30, 2007. Pennfield Schools' major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of Pennfield Schools' management. Our responsibility is to express an opinion on Pennfield Schools' compliance based on our audit.

We conducted our audit of compliance in accordance with U.S. generally accepted auditing standards; the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local governments, and Non-Profit Organizations*. Those standards and OMB circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Pennfield Schools' compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on Pennfield Schools' compliance with those requirements.

In our opinion, Pennfield Schools complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2007.

Donald L. Paulsen, CPA
Patrick J. Monahan, CPA
Bruce S. A. Gosling, CPA
Michael R. Wilson, CPA
Rick L. Strawser, CPA
Jerrel T. Norman (1941-1982)

Internal Control over Compliance - The management of Pennfield Schools is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered Pennfield Schools internal control over compliance with the requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of Pennfield Schools' internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Entity's internal control over compliance.

A control deficiency in an entity's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a federal program on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the entity's internal control.

Our consideration of the internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

This report is intended solely for the information and use of the Board of Education, management and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Norman J. Paulson, P.C.

October 23, 2007

PENNFIELD SCHOOLS

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED June 30, 2007

1. Summary of auditor's results:

- (i) An unqualified opinion was issued on the financial statements.
- (ii) No reportable conditions in internal control were disclosed by the audit of the financial statements.
- (iii) The audit disclosed no noncompliance.
- (iv) No reportable conditions in internal control over major programs were disclosed by the audit.
- (v) An unqualified opinion was issued on Compliance for major programs.
- (vi) No audit findings were disclosed.
- (vii) Major programs: U.S. Department of Education

Title I - Educationally Deprived

- (viii) Dollar threshold used to distinguish between Type A and Type B programs: \$300,000
- (ix) Pennfield Schools qualified as a low-risk auditee.

2. Findings relating to the financial statements which are required to be reported in accordance with GAGAS.

NONE

3. Findings and questioned costs for Federal awards.

NONE